



# WEINLANDER FITZHUGH

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## VILLAGE OF FARWELL CLARE COUNTY, MICHIGAN

### FINANCIAL STATEMENTS FEBRUARY 29, 2008

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## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3a-31
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	4
STATEMENT OF ACTIVITIES	5
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS:	
BALANCE SHEET	6
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	9
PROPRIETARY FUNDS:	
STATEMENT OF NET ASSETS	10
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	11
STATEMENT OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	13-25

## TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	26
BUDGETARY COMPARISON SCHEDULE – MAJOR STREETS FUND	27
BUDGETARY COMPARISON SCHEDULE – LOCAL STREETS FUND	28
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	29-30
SCHEDULE OF FINDINGS AND RESPONSES	31-32



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## INDEPENDENT AUDITORS' REPORT

July 17, 2008

Members of the Village Council  
Village of Farwell,  
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, the aggregate discretely presented component unit, and each major fund of the Village of Farwell as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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## WEINLANDER FITZHUGH

Members of the Village Council  
Village of Farwell  
July 17, 2008  
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated July 17, 2008 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Weinlander Fitzhugh*

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

Our discussion and analysis of the Village of Farwell's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 29, 2008.

**Financial Highlights**

The General Fund reported an increase in fund balance of \$40,617 resulting in a balance of \$802,563 at the end of the year. Ending fund balances for the Major and Local Street Funds were \$317,544 and \$15,421 respectively.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Village of Farwell financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Village, presenting both an aggregate view of the Village's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Major Streets Fund and Local Streets Fund. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the major Governmental Funds (Required Supplemental Information)

VILLAGE OF FARWELL  
Management's Discussion and Analysis  
For the Year Ended February 29, 2008

**Reporting the Village as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the Village's finances is, "Is the Village better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Village's net assets as a way to measure the Village's financial position. The change in net assets provides the reader a tool to assist in determining whether the Village's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the Village.

In the Statement of Net Assets and the Statement of Activities, the Village is divided into three kinds of activities:

- Governmental Activities – Most of the Village's basic services are reported here, including the major streets fund, local streets fund and general administration. Sales taxes (stated shared revenues), property taxes and franchise fees finance most of these activities.
- Business Type Activities – The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water and sewer systems are reported here.
- Component Unit – The Village includes a separate legal entity in its report – Local Development Finance Authority. Although legally separate, this component unit is important because the Village is financially accountable for them.

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

**Reporting the Village's Most Significant Funds**

*Fund Financial Statements*

The Village's fund financial statements provide detailed information about the most significant funds – not the Village as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Village's two types of funds, governmental and proprietary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Village's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Proprietary Funds*

These funds are reported in the fund financial statements and generally report services for which the Village charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Village organization such as the water and sewer utilities.



**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

**Government-wide Financial Analysis**

**Financial position** - The statement of net assets provides the perspective of the Village as a whole. Exhibit A provides a summary of the Village's net assets as of February 29, 2008 and February 28, 2007.

<b><u>Exhibit A</u></b>	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Assets</b>						
Current and other assets	\$ 1,204,995	\$ 1,155,188	\$ 574,388	\$ 575,817	\$ 1,779,383	\$ 1,731,005
Capital assets - net of accumulated depreciation	309,190	328,134	3,140,984	3,198,656	3,450,174	3,526,790
Total Assets	1,514,185	1,483,322	3,715,372	3,774,473	5,229,557	5,257,795
<b>Liabilities</b>						
Current liabilities	84,391	5,469	33,645	59,620	118,036	65,089
Long-term liabilities	31,889	9,965	984,000	1,013,000	1,015,889	1,022,965
Total Liabilities	116,280	15,434	1,017,645	1,072,620	1,133,925	1,088,054
<b>Net Assets</b>						
Invested in property and equipment - net of related debt	260,190	328,134	2,123,339	2,151,816	2,383,529	2,479,950
Restricted	0	0	103,660	72,010	103,660	72,010
Unrestricted	1,137,715	1,139,754	470,728	478,027	1,608,443	1,617,781
Total Net Assets	<u>\$ 1,397,905</u>	<u>\$ 1,467,888</u>	<u>\$ 2,697,727</u>	<u>\$ 2,701,853</u>	<u>\$ 4,095,632</u>	<u>\$ 4,169,741</u>

VILLAGE OF FARWELL  
Management's Discussion and Analysis  
For the Year Ended February 29, 2008

Exhibit A, on the previous page, focuses on net assets. The Village's total net assets were approximately \$4.1 million at February 29, 2008. Capital assets, net of related debt, totaling approximately \$2.4 million compares the original costs, less depreciation of the Village's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$104,000 are reported separately to show legal constraints from debt requirements and legislation that limit the Village's ability to use those net assets for day-to-day operations.

The \$1.6 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

**Results of operations** - The results of this year's operations for the Village as a whole are reported in the statement of activities. Exhibit B shows a summary of the changes in net assets for the years ended February 29, 2008 and February 28, 2007.

VILLAGE OF FARWELL  
Management's Discussion and Analysis  
For the Year Ended February 29, 2008

**Exhibit B**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 95,362	\$ 32,838	\$ 276,273	\$ 284,581	\$ 371,635	\$ 317,419
Grants and contributions	0	0	71,000	575,941	71,000	575,941
General revenue:						
State shared revenue	171,709	180,526	0	0	171,709	180,526
Property taxes	201,950	217,453	0	0	201,950	217,453
Interest income	19,607	19,725	29,072	26,481	48,679	46,206
Miscellaneous	1,065	2,623	0	0	1,065	2,623
Total revenue	<u>489,693</u>	<u>453,165</u>	<u>376,345</u>	<u>887,003</u>	<u>866,038</u>	<u>\$ 1,340,168</u>
<b>Function/Program Expenses</b>						
General government	234,931	97,710	0	0	234,931	97,710
Public safety	18,510	15,911	0	0	18,510	15,911
Public service	17,910	156,332	0	0	17,910	156,332
Highways and streets	279,457	109,429	0	0	279,457	109,429
Recreation and cultural	8,868	4,155	0	0	8,868	4,155
Water and sewer	0	0	380,471	432,658	380,471	432,658
Total expenses	<u>559,676</u>	<u>383,537</u>	<u>380,471</u>	<u>432,658</u>	<u>940,147</u>	<u>816,195</u>
Change in Net Assets	<u>\$ (69,983)</u>	<u>\$ 69,628</u>	<u>\$ (4,126)</u>	<u>\$ 454,345</u>	<u>\$ (74,109)</u>	<u>\$ 523,973</u>

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was approximately \$940,000. Certain activities were partially funded by approximately \$372,000 from those who benefited from the programs, or by the other Villages and organizations that subsidized certain programs with operating grants and contributions of \$71,000. We paid for the remaining "public benefit" portion of our governmental and business-type activities with approximately \$202,000 in taxes, \$172,000 in State shared revenue and with our other revenues, such as interest and miscellaneous revenues.

The Village experienced a decrease in net assets of approximately \$74,000 mainly due to higher expenses for street projects and general government expenses. The increase in revenue in the governmental funds was not sufficient enough to make up for the increased expenses.

**The Village's Funds**

The Village uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Village is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Village's overall financial health.

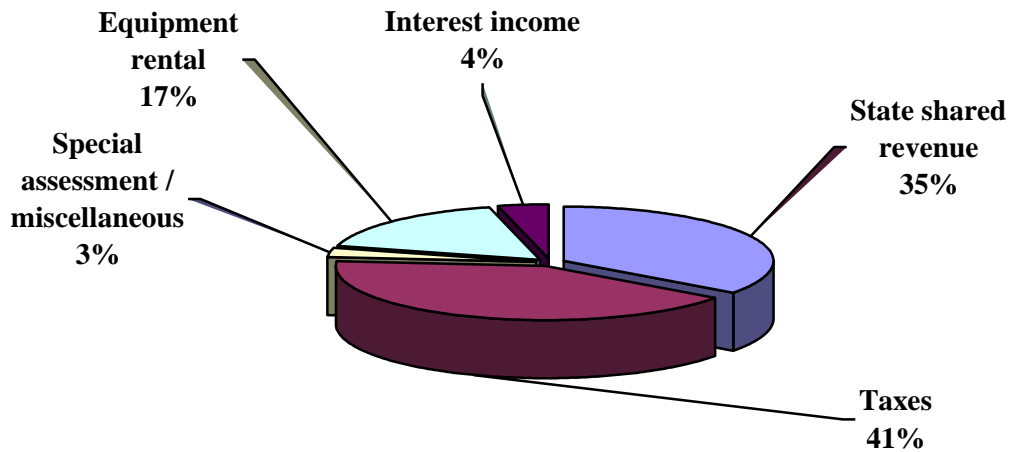
The Village's Governmental funds reported a combined fund balance of \$1.14 million which is down from last year's total of approximately \$1.15 million. The schedule below details the fund balance and the total change in fund balances as of February 29, 2008 and February 28, 2007.

	<u>Fund Balance</u> <u>February 29, 2008</u>	<u>Fund Balance</u> <u>February 28, 2007</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 802,563	\$ 761,946	\$ 40,617
Major Streets	317,544	311,970	5,574
Local Streets	15,421	75,803	(60,382)
Total	<u>\$ 1,135,528</u>	<u>\$ 1,149,719</u>	<u>\$ (14,191)</u>

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

The graph below details the major sources of the Village's total governmental fund revenue.

The chart below compares current year revenues with last year.

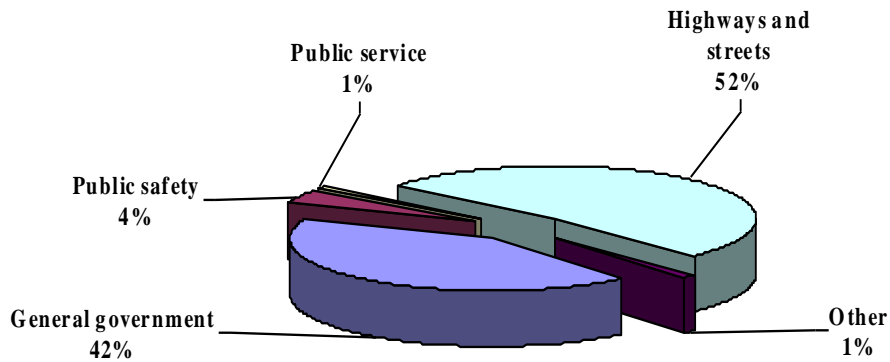


	2008	2007
<i>Revenues by Function</i>		
State shared revenue	\$ 171,709	\$ 180,526
Taxes	201,950	217,453
Special assessment / miscellaneous	13,945	6,223
Equipment rental	82,482	54,687
Interest income	19,607	19,725
Total	<u>\$ 489,693</u>	<u>\$ 478,614</u>

Revenues are up \$11,000 mainly due higher revenue from equipment rental and from a reimbursement from Farwell Area Schools for the School Street Project. These increases were offset by a decrease in state shared revenue and property tax revenue.

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

The graph below details the governmental expenditure categories of the Village.



The chart below compares current year expenditures with last year.

	2008	2007
<i>Expenditures by Function</i>		
General government	\$ 232,124	\$ 100,656
Public safety	18,510	15,911
Public service	7,272	145,694
Highway and streets	288,608	93,928
Recreation and cultural	6,370	5,623
Total	<u>\$ 552,884</u>	<u>\$ 361,812</u>

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

Expenditures are up \$191,072 from the prior year. This change was due to costs of improving local and major streets, an increase in equipment rental costs, an increase in salaries and wages, an increase in membership and dues and operating expenses.

**Business-Type Activities** -The Village's Proprietary Funds shows the activity of the Water and Sewer Funds. The Water Fund reported net assets of \$777,206 and a net decrease in net assets of \$16,984. The decrease in net assets is mainly due to a decrease in operating revenues and a increase in operating expenses. The Sewer Fund reported net assets of \$1,920,521 million and a net increase of \$12,858. The increase in net assets is mainly due to the receipt of a grant for the waste water treatment plant.

**General Fund Budgetary Highlights**

Over the course of the year, the Village revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Village's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

The final revenue budget increased from the original revenue budget due to increases expected in equipment rental and interest income.

The difference between the actual revenues and the final revenue budget were insignificant.

The final expense budget decreased from the original expenditure budget due to a decrease in spending for the parks and a decrease in general government expenses.

The difference between the actual expenses and the final expense budget were insignificant.

**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

**Capital Assets**

At February 29, 2008, the Village had \$3.5 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net decrease (including additions and disposals) of approximately \$76,000 thousand or 2%, from last year.

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Land	\$ 22,000	\$ 22,000	\$ 163,844	\$ 163,844	\$ 185,844	\$ 185,844
Land improvements	157,014	157,014	0	0	157,014	157,014
Buildings and improvements	245,881	245,881	53,315	8,265	299,196	254,146
Machinery and equipment	152,570	152,570	181,320	148,980	333,890	301,550
Vehicles	89,902	89,902	0	0	89,902	89,902
Water system	0	0	1,513,157	1,497,912	1,513,157	1,497,912
Sewer system	0	0	3,357,919	3,352,836	3,357,919	3,352,836
 Total capital assets	 667,367	 667,367	 5,269,555	 5,171,837	 5,936,922	 5,839,204
 Less accumulated depreciation	 358,177	 339,233	 2,128,571	 1,973,181	 2,486,748	 2,312,414
 Net capital assets	 \$ 309,190	 \$ 328,134	 \$ 3,140,984	 \$ 3,198,656	 \$ 3,450,174	 \$ 3,526,790

This year's additions of \$97,717 included the completion of the waste water treatment plant, water system upgrades, a garage and a generator.

We do not anticipate any major capital additions in the next fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.



**VILLAGE OF FARWELL**  
**Management's Discussion and Analysis**  
**For the Year Ended February 29, 2008**

**Debt**

At the end of this year, the Village had \$1.0 million in long-term debt outstanding versus \$1.1 million in the previous year. The Village's debt is comprised of general obligation bonds used by the Major Streets Fund, Sewer Service Fund and Water Service Fund.

**Factors Expected to Have an Effect on Future Operations**

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Village expenditures in response to any revenue shortfall.

**Contacting The Village's Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, contact the Village Treasurer/Clerk Office at PO Box 374, Farwell, Michigan 48622.

VILLAGE OF FARWELL  
Statement of Net Assets  
February 29, 2008

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		
<u>Assets</u>				
Cash and equivalents	\$ 948,010	\$ 493,924	\$ 1,441,934	\$ 49,066
Receivables (net)	72,501	43,345	115,846	0
Internal balances	66,541	(66,541)	0	0
Due from other governmental units	43,973	0	43,973	100
Due from component unit	60,894	0	60,894	0
Restricted assets -				
cash and equivalents	0	103,660	103,660	0
Capital assets - less accumulated				
depreciation of \$2,640,951	309,190	3,140,984	3,450,174	863,740
Bond issuance costs - less accumulated				
amortization of \$345	13,076	0	13,076	0
Total assets	<u>1,514,185</u>	<u>3,715,372</u>	<u>5,229,557</u>	<u>912,906</u>
<u>Current Liabilities</u>				
Accounts payable	5,899	0	5,899	2,000
Accrued expenses	7,352	0	7,352	0
Deferred revenue	43,140	0	43,140	0
Accrued interest payable	0	4,645	4,645	0
Due to primary government	0	0	0	60,894
Bonds payable	28,000	29,000	57,000	3,638
Total current liabilities	<u>84,391</u>	<u>33,645</u>	<u>118,036</u>	<u>66,532</u>
<u>Long-term liabilities</u>				
Compensated absences	10,889	0	10,889	0
Bonds payable	21,000	984,000	1,005,000	27,285
Total liabilities	<u>116,280</u>	<u>1,017,645</u>	<u>1,133,925</u>	<u>93,817</u>
<u>Net Assets</u>				
Invested in capital assets				
net of related debt	260,190	2,123,339	2,383,529	0
Restricted for other purposes	0	103,660	103,660	0
Unrestricted	1,137,715	470,728	1,608,443	819,089
Total net assets	<u>\$ 1,397,905</u>	<u>\$ 2,697,727</u>	<u>\$ 4,095,632</u>	<u>\$ 819,089</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL  
Statement of Activities  
For the Year Ended February 29, 2008

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Capital Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Primary government:							
General government	\$ 234,931	\$ 82,482	\$ 0	\$ (152,449)	\$ 0	\$ (152,449)	\$ 0
Public safety	18,510	0	0	(18,510)	0	(18,510)	0
Public service	17,910	0	0	(17,910)	0	(17,910)	0
Highways and streets	279,457	12,880	0	(266,577)	0	(266,577)	0
Recreation and cultural	8,868	0	0	(8,868)	0	(8,868)	0
Total governmental activities	<u>559,676</u>	<u>95,362</u>	<u>0</u>	<u>(464,314)</u>	<u>0</u>	<u>(464,314)</u>	<u>0</u>
Business-type activities:							
Sewer	244,388	169,366	71,000	0	(4,022)	(4,022)	0
Water	<u>136,083</u>	<u>106,907</u>	<u>0</u>	<u>0</u>	<u>(29,176)</u>	<u>(29,176)</u>	<u>0</u>
Total business-type activities	<u>380,471</u>	<u>276,273</u>	<u>71,000</u>	<u>0</u>	<u>(33,198)</u>	<u>(33,198)</u>	<u>0</u>
Total primary government	<u>\$ 940,147</u>	<u>\$ 371,635</u>	<u>\$ 71,000</u>	<u>(464,314)</u>	<u>(33,198)</u>	<u>(497,512)</u>	<u>0</u>
Component unit:							
Local Development Finance Authority	<u>\$ 31,564</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(31,564)</u>
General Revenues:							
State shared revenue				171,709	0	171,709	0
Property taxes				201,950	0	201,950	100
Interest income				19,607	29,072	48,679	0
Miscellaneous				<u>1,065</u>	<u>0</u>	<u>1,065</u>	<u>24,618</u>
Total general revenues				<u>394,331</u>	<u>29,072</u>	<u>423,403</u>	<u>24,718</u>
Change in net assets				<u>(69,983)</u>	<u>(4,126)</u>	<u>(74,109)</u>	<u>(6,846)</u>
Net assets - beginning of year, as previously stated				1,467,888	2,701,853	4,169,741	824,935
Prior period adjustment				<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000</u>
Net assets - beginning of year, restated				<u>1,467,888</u>	<u>2,701,853</u>	<u>4,169,741</u>	<u>825,935</u>
Net assets - end of year				<u>\$ 1,397,905</u>	<u>\$ 2,697,727</u>	<u>\$ 4,095,632</u>	<u>\$ 819,089</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL  
Governmental Funds  
Balance Sheet  
February 29, 2008

	General Fund	Major Street Fund	Local Streets Fund	Total
<u>Assets</u>				
Cash and equivalents	\$ 579,706	\$ 335,436	\$ 32,868	\$ 948,010
Receivables - net	23,128	37,004	12,369	72,501
Due from other governmental units	25,279	11,620	7,074	43,973
Due from other funds	126,807	0	0	126,807
Due from component unit	60,894	0	0	60,894
Total Assets	<u>\$ 815,814</u>	<u>\$ 384,060</u>	<u>\$ 52,311</u>	<u>\$ 1,252,185</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 5,899	\$ 0	\$ 0	\$ 5,899
Accrued expenses	7,352	0	0	7,352
Deferred revenue	0	33,240	9,900	43,140
Due to other funds	0	33,276	26,990	60,266
Total liabilities	<u>13,251</u>	<u>66,516</u>	<u>36,890</u>	<u>116,657</u>
<u>Fund Balance</u>				
Unreserved	<u>802,563</u>	<u>317,544</u>	<u>15,421</u>	<u>1,135,528</u>
Total fund balance	<u>802,563</u>	<u>317,544</u>	<u>15,421</u>	<u>1,135,528</u>
Total Liabilities and Fund Balance	<u>\$ 815,814</u>	<u>\$ 384,060</u>	<u>\$ 52,311</u>	<u>\$ 1,252,185</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
February 29, 2008

Total fund balance - governmental funds	\$ 1,135,528
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Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds:

Cost of the capital assets	667,367
Accumulated depreciation	(358,177)
Bond issuance costs	13,450
Accumulated amortization	(374)

Some liabilities are not due and payable in the current period and  
therefor are not reported in the funds. Those liabilities consist of:

Bonds payable	(49,000)
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Long-term liabilities are not due and payable in the current period  
and are not reported in the funds:

Compensated absences	<u>(10,889)</u>
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Total net assets - governmental activities	<u><u>\$ 1,397,905</u></u>
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See accompanying notes to financial statements

VILLAGE OF FARWELL  
Governmental Funds  
Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For the Year Ended February 29, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Total
<u>Revenues</u>				
State shared revenue	\$ 80,527	\$ 68,098	\$ 23,084	\$ 171,709
Taxes and penalties	166,802	17,574	17,574	201,950
Charges for services	0	10,000	0	10,000
Special assessments	0	2,880	0	2,880
Equipment rental	82,482	0	0	82,482
Miscellaneous	1,065	0	0	1,065
Interest income	14,017	3,356	2,234	19,607
Total revenues	<u>344,893</u>	<u>101,908</u>	<u>42,892</u>	<u>489,693</u>
<u>Expenditures</u>				
Current:				
General government	232,124	0	0	232,124
Public safety	18,510	0	0	18,510
Public service	7,272	0	0	7,272
Highways and streets	0	149,234	139,374	288,608
Recreation and cultural	6,370	0	0	6,370
Total expenditures	<u>264,276</u>	<u>149,234</u>	<u>139,374</u>	<u>552,884</u>
Excess of revenues over (under) expenditures	<u>80,617</u>	<u>(47,326)</u>	<u>(96,482)</u>	<u>(63,191)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	10,000	36,100	46,100
Proceeds from bond issuance	0	49,000	0	49,000
Operating transfers (out)	(40,000)	(6,100)	0	(46,100)
Total other financing sources (uses)	<u>(40,000)</u>	<u>52,900</u>	<u>36,100</u>	<u>49,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>40,617</u>	<u>5,574</u>	<u>(60,382)</u>	<u>(14,191)</u>
Fund balance - beginning of year	<u>761,946</u>	<u>311,970</u>	<u>75,803</u>	<u>1,149,719</u>
Fund balance - end of year	<u>\$ 802,563</u>	<u>\$ 317,544</u>	<u>\$ 15,421</u>	<u>\$ 1,135,528</u>

See accompanying notes to financial statements

VILLAGE OF FARWELL  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended February 29, 2008

Net change in fund balance - total governmental funds	\$ (14,191)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(18,944)
Bond issuance costs	13,450
Amortization expense	(374)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.	
	(49,000)
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	
	<u>(924)</u>
Change in net assets of governmental activities	<u><u>\$ (69,983)</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL  
Proprietary Funds  
Statement of Net Assets  
February 29, 2008

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and equivalents	\$ 174,858	\$ 319,066	\$ 493,924
Accounts receivable:			
Taxes	1,215	390	1,605
Customers	<u>28,424</u>	<u>13,316</u>	<u>41,740</u>
Total current assets	204,497	332,772	537,269
Noncurrent assets:			
Restricted assets -			
cash and equivalents	31,650	72,010	103,660
Capital assets less accumulated depreciation of \$2,128,571	<u>2,514,832</u>	<u>626,152</u>	<u>3,140,984</u>
Total Assets	<u><u>\$ 2,750,979</u></u>	<u><u>\$ 1,030,934</u></u>	<u><u>\$ 3,781,913</u></u>
<u>Liabilities</u>			
Current liabilities:			
Accrued interest	\$ 2,812	\$ 1,833	\$ 4,645
Due to other funds	34,646	31,895	66,541
Current portion noncurrent liabilities	<u>9,000</u>	<u>20,000</u>	<u>29,000</u>
Total current liabilities	46,458	53,728	100,186
Bonds payable	<u>784,000</u>	<u>200,000</u>	<u>984,000</u>
Total Liabilities	<u>830,458</u>	<u>253,728</u>	<u>1,084,186</u>
<u>Net Assets</u>			
Invested in capital assets -			
net of related debt	1,719,020	404,319	2,123,339
Restricted	31,650	72,010	103,660
Unrestricted	<u>169,851</u>	<u>300,877</u>	<u>470,728</u>
Total Net Assets	<u><u>\$ 1,920,521</u></u>	<u><u>\$ 777,206</u></u>	<u><u>\$ 2,697,727</u></u>

See accompanying notes to financial statements



VILLAGE OF FARWELL  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended February 29, 2008

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for services	\$ 169,366	\$ 103,057	\$ 272,423
Rental income	0	3,850	3,850
Total operating revenues	<u>169,366</u>	<u>106,907</u>	<u>276,273</u>
<u>Operating Expenses</u>			
Personnel services	32,546	29,557	62,103
Supplies	1,109	914	2,023
Contractual services	1,960	1,126	3,086
Professional services	15,879	5,897	21,776
Utilities	28,609	7,798	36,407
Equipment rental	14,648	9,889	24,537
Repairs and maintenance	4,238	12,686	16,924
Other expenses	6,692	5,615	12,307
Depreciation	<u>104,622</u>	<u>50,768</u>	<u>155,390</u>
Total operating expenses	<u>210,303</u>	<u>124,250</u>	<u>334,553</u>
Operating income (loss)	<u>(40,937)</u>	<u>(17,343)</u>	<u>(58,280)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Capital contributions	71,000	0	71,000
Interest income	16,880	12,192	29,072
Interest expense	<u>(34,085)</u>	<u>(11,833)</u>	<u>(45,918)</u>
Total nonoperating revenues (expenses)	<u>53,795</u>	<u>359</u>	<u>54,154</u>
Change in net assets	12,858	(16,984)	(4,126)
Net assets - beginning of year	<u>1,907,663</u>	<u>794,190</u>	<u>2,701,853</u>
Net assets - end of year	<u><u>\$1,920,521</u></u>	<u><u>\$ 777,206</u></u>	<u><u>\$ 2,697,727</u></u>

See accompanying notes to financial statements

VILLAGE OF FARWELL  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended February 29, 2008

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Cash flows from operating activities</u>			
Cash received from customers	\$ 162,526	\$ 103,987	\$ 266,513
Cash payments to suppliers for goods and services	(67,157)	(15,236)	(82,393)
Cash payments to employees for services	(32,546)	(29,557)	(62,103)
Net cash provided by operating activities	<u>62,823</u>	<u>59,194</u>	<u>122,017</u>
<u>Cash flows from capital and related financing activities</u>			
Acquisition and construction of capital assets	(82,471)	(15,246)	(97,717)
Proceeds from grant	97,000	0	97,000
Principal paid on long-term debt	(9,000)	(20,000)	(29,000)
Interest paid on long-term debt	(34,085)	(11,833)	(45,918)
Net cash provided (used) by capital and related financing activities	<u>(28,556)</u>	<u>(47,079)</u>	<u>(75,635)</u>
<u>Cash flows from investing activities</u>			
Interest income	<u>16,880</u>	<u>12,192</u>	<u>29,072</u>
Net increase in cash and investments	51,147	24,307	75,454
Cash and investments - beginning of year	<u>155,361</u>	<u>366,769</u>	<u>522,130</u>
Cash and investments - end of year	<u>\$ 206,508</u>	<u>\$ 391,076</u>	<u>\$ 597,584</u>
<u>Reconciliation of Cash Flows from Operations</u>			
Operating income (loss)	\$ (40,937)	\$ (17,343)	\$ (58,280)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	104,622	50,768	155,390
Changes in operating assets and liabilities:			
Accounts receivable	(6,840)	(2,920)	(9,760)
Accounts payable	(25,780)	0	(25,780)
Accrued other liabilities	(28)	(167)	(195)
Due to other funds	31,786	28,856	60,642
Net cash provided by operating activities	<u>\$ 62,823</u>	<u>\$ 59,194</u>	<u>\$ 122,017</u>

See accompanying notes to financial statements.

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Farwell conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Farwell:

**Reporting entity**

Village of Farwell is governed by an elected seven-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented component Units – The component unit's columns in the entity wide financial statements include the financial data of the Local Development Finance Authority (LDFA). This unit is reported in a separate column to emphasize that they are legally separate from the Village. The LDFA serves all the citizens of the government and are governed by a board comprised of the Village's elected Council.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

VILLAGE OF FARWELL  
Notes to Financial Statements  
For the Year Ended February 29, 2008

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

**Major and Local Street Funds** – The Major and Local Street Funds account for the resources of the state gas and weight tax revenue that are restricted for use of major and local streets.

The Village reports the following major proprietary funds:

**Water Fund** – The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** – The Sewer Fund accounts for the activities of the sewage collection system.

**Assets, Liabilities, and Net Assets or Equity**

Deposits and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on property values assessed as of the same date. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Restricted Cash - \$103,660 of the Enterprise Fund's cash and equivalents is restricted for required bond reserves and construction projects (Note 9).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. All liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirement.

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Village of Farwell follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Village Clerk/Treasury submits to the Village's Council a proposed budget prior to March 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the Village's Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted at the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Major Streets Fund and Local Streets Fund are presented as Required Supplemental Information.

During the year ended February 29, 2008, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

VILLAGE OF FARWELL  
Notes to Financial Statements  
For the Year Ended February 29, 2008

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Public safety	\$ 17,050	\$ 18,510	\$ 1,460
Major Streets Fund:			
Highways and streets	103,370	149,234	45,864
Local Streets Fund:			
Highways and streets	132,550	139,374	6,824

Excess of Expenditures Over Appropriations in Budgeted Funds – The LDFA component unit of the Village is currently operating under a deficit fund balance. The deficit has been financed by advances from the General Fund. It is the intention of the Village to repay the General Fund as lots are sold in the Industrial Park.



VILLAGE OF FARWELL  
Notes to Financial Statements  
For the Year Ended February 29, 2008

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Village's deposits are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Equivalents	Restricted Cash Equivalents
Governmental activities	\$ 948,010	\$ 0
Business-type activities	493,923	103,660
	<hr/>	<hr/>
Total primary government	1,441,933	103,660
Component unit	49,066	0
	<hr/>	<hr/>
Total	<u>\$ 1,490,999</u>	<u>\$ 103,660</u>

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,594,584
Petty cash and cash on hand	<u>75</u>
Total	<u>\$ 1,594,659</u>

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 29, 2008, \$1,344,103 of the Village's bank balance of \$1,593,169 was exposed to custodial credit risk because it was uninsured and uncollateralized. Since the component unit participates in the government's common cash, the federal depository insurance is not specifically allocated to their balance.

The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

**NOTE 4 – CAPITAL ASSETS**

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<b><u>Governmental activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 22,000	\$ 0	\$ 0	\$ 22,000
Capital assets being depreciated:				
Land improvements	157,014	0	0	157,014
Buildings and improvements	245,881	0	0	245,881
Machinery and equipment	152,570	0	0	152,570
Vehicles	89,902	0	0	89,902
Subtotal	645,367	0	0	645,367
Less accumulated depreciation for:				
Land improvements	9,160	3,925	0	13,085
Buildings and improvements	132,453	7,584	0	140,037
Machinery and equipment	107,718	7,435	0	115,153
Vehicles	89,902	0	0	89,902
Subtotal	339,233	18,944	0	358,177
Net capital assets being depreciated	306,134	(18,944)	0	287,190
Governmental activities, total capital assets - net of depreciation	\$ 328,134	\$ (18,944)	\$ 0	\$ 309,190

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<b><u>Business-type activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 163,844	\$ 0	\$ 0	\$ 163,844
Capital assets being depreciated:				
Buildings and improvements	8,265	45,050	0	53,315
Machinery and equipment	148,980	32,340	0	181,320
Water system	1,497,912	15,245	0	1,513,157
Sewer System	3,352,837	5,082	0	3,357,919
Total capital assets being depreciated	<u>5,007,994</u>	<u>97,717</u>	<u>0</u>	<u>5,105,711</u>
Less accumulated depreciation for:				
Buildings and improvements	4,597	732	0	5,329
Machinery and equipment	37,728	20,184	0	57,912
Water system	853,905	50,598	0	904,503
Sewer System	1,076,951	83,876	0	1,160,827
	<u>1,973,181</u>	<u>155,390</u>	<u>0</u>	<u>2,128,571</u>
Net capital assets being depreciated	<u>3,034,813</u>	<u>(57,673)</u>	<u>0</u>	<u>2,977,140</u>
Business-type activities, total capital assets, net of depreciation	<u><u>\$ 3,198,657</u></u>	<u><u>\$ (57,673)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,140,984</u></u>
<b><u>Component unit activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 67,485	\$ 0	\$ 0	\$ 67,485
Capital assets being depreciated:				
Land improvements	950,458	0	0	950,458
Less accumulated depreciation for:				
Land improvements	125,706	28,497	0	154,203
Net capital assets being depreciated	<u>824,752</u>	<u>(28,497)</u>	<u>0</u>	<u>796,255</u>
Component unit activity, total capital assets, net of depreciation	<u><u>\$ 892,237</u></u>	<u><u>\$ (28,497)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 863,740</u></u>

VILLAGE OF FARWELL  
Notes to Financial Statements  
For the Year Ended February 29, 2008

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 1,883
Public service	10,638
Highways and streets	3,925
Recreation and cultural	2,498
	<hr/>
Total governmental activities depreciation expense	\$ 18,944
	<hr/>
Business-type activities:	
Sewer	\$ 104,622
Water	50,768
	<hr/>
Total business-type activities depreciation expense	\$ 155,390
	<hr/>
Component unit activities:	
LDFA	\$ 28,497
	<hr/>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of balances and transfers made during the year ended February 29, 2008 are as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 187,701	\$ 0	\$ 40,000
Major Street Fund	33,276	0	10,000	6,100
Local Street Fund	26,990	0	36,100	0
Water Fund	31,895	0	0	0
Sewer Fund	34,646	0	0	0
Local Finance Development Authority	60,894	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 187,701	\$ 187,701	\$ 46,100	\$ 46,100

These inter-fund receivable and payable balances resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to supplement projects within the street funds.

VILLAGE OF FARWELL  
Notes to Financial Statements  
For the Year Ended February 29, 2008

**NOTE 6- LONG-TERM DEBT**

A summary of the Village's long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<b><u>Primary Government</u></b>			
2007 general obligation capital improvement bonds in the amount of \$565,000, due in annual installments of \$28,000 to \$49,000 through 2022, with an interest rate of 4.25%.	\$ 0	\$ 49,000	\$ 49,000
1979 Water Bonds, due in annual installments of \$20,000 through 2019, with an interest rate of 5.00%	240,000	(20,000)	220,000
2005 Wastewater Treatment Plant Bonds, due in annual installments of \$8,000 to \$19,000, with an interest rate of 4.25%	<u>802,000</u>	<u>(9,000)</u>	<u>793,000</u>
	1,042,000	20,000	1,062,000
<b><u>Component Unit</u></b>			
State of Michigan Community Development Block Grant Program Revenue bonds, dated April 1, 2000, due in annual installments through May 2018, with no stated interest.	<u>34,561</u>	<u>(3,638)</u>	<u>30,923</u>
	<u><u>\$ 1,076,561</u></u>	<u><u>\$ 16,362</u></u>	<u><u>\$ 1,092,923</u></u>

Long-term obligation activity can be summarized as follows:

	<u>Balance March 1, 2007</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance February 29, 2008</u>	<u>Amount Due Within One Year</u>
Bonds	<u><u>\$ 1,076,561</u></u>	<u><u>\$ 49,000</u></u>	<u><u>\$ 32,638</u></u>	<u><u>\$ 1,092,923</u></u>	<u><u>\$ 60,638</u></u>

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 6– LONG-TERM DEBT (CONTINUED)**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended February 28	Governmental Activities		Business-Type Activities		Component Unit Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 28,000	\$ 2,058	\$ 29,000	\$ 67,657	\$ 3,638	\$ 0
2010	21,000	882	29,000	72,260	3,638	0
2011	0	0	30,000	42,938	3,638	0
2012	0	0	30,000	41,512	3,638	0
2013	0	0	79,000	163,634	3,638	0
2014-2018	0	0	92,000	149,078	12,733	0
2019-2023	0	0	109,000	131,376	0	0
2024-2028	0	0	130,000	109,764	0	0
2029-2033	0	0	156,000	83,264	0	0
2034-2038	0	0	189,000	79,686	0	0
2039-2043	0	0	140,000	13,372	0	0
Total	<u>\$ 49,000</u>	<u>\$ 2,940</u>	<u>\$ 1,013,000</u>	<u>\$ 954,541</u>	<u>\$ 30,923</u>	<u>\$ 0</u>

The Village signed a general obligation capital improvement bond agreement with the USDA in October 2007 for \$565,000. The bonds are to be used for the School Street Improvement Project. As of February 29, 2008, \$49,000 of the bond proceeds had been requested by the Village for bond issuance fees. The Project was started in May 2008 and the remainder of the bond will be requested during fiscal year 2009.

**NOTE 7 – PENSION PLAN**

The Village has a defined contribution pension plan that covers certain employees of the Village. The full-time employee is eligible to participate after 90 days of service. This Village contributed \$3,750 per employee for the year ended February 29, 2008. The total pension expense amounted to \$15,000 for the year ended February 29, 2008.

**NOTE 8 – RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts and errors and omissions. The Village has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

**VILLAGE OF FARWELL**  
**Notes to Financial Statements**  
**For the Year Ended February 29, 2008**

**NOTE 9 – NET ASSETS - RESTRICTED**

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of one half of the next interest payment due and one half of the next principal payment due on the 1979 bonds. This reserve has accumulated in the amount of \$13,500.

The Water Fund bond ordinances require minimum reserves to be set aside to the extent the fund reaches \$31,500 to be used for bond and interest redemption. This reserve has accumulated in the amount of \$31,500.

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of the next quarter's current expenses or administration and operation of the water system. This reserve has accumulated in the amount of \$19,510.

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve to the extent the fund reaches \$7,500 to be used solely for the purpose of making major repairs and replacements to the water system. This reserve has accumulated in the amount of \$7,500.

The Sewer Fund bond ordinances require a bond reserve account and a replacement reserve account until a total of \$44,000 and \$378,000 has been reached, respectively. The bond requires that \$4,400 and \$6,150 be set aside annually for the bond reserve and replacement reserve, respectively until the bond reserve reaches \$44,000 then the full \$10,550 will be set aside annually for the replacement reserve until the reserve reaches \$378,000. These reserves have accumulated in the amount of \$31,650.

**NOTE 10 – PRIOR PERIOD ADJUSTMENT**

The net assets of the Village of Farwell – Local Development Finance Authority at March 1, 2007, has been increased by \$1,000. The adjustment was made to adjust for a deposit on land received in a prior year.

VILLAGE OF FARWELL  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended February 29, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue			\$ 80,527	
Taxes and penalties			166,802	
Equipment rental			82,482	
Miscellaneous			1,065	
Interest income			<u>14,017</u>	
Total revenues	<u>\$ 285,000</u>	<u>\$ 342,787</u>	<u>344,893</u>	<u>\$ 2,106</u>
<u>Expenditures</u>				
General government	247,876	234,712	232,124	2,588
Public safety	17,524	17,050	18,510	(1,460)
Public service	8,000	7,300	7,272	28
Recreation and cultural	<u>22,200</u>	<u>6,385</u>	<u>6,370</u>	<u>15</u>
Total expenditures	<u>295,600</u>	<u>265,447</u>	<u>264,276</u>	<u>1,171</u>
Excess (deficiency) of revenues over expenditures	(10,600)	77,340	80,617	3,277
<u>Other Financing (Uses)</u>				
Operating transfers out	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>0</u>
Excess (deficiency) of revenues over expenditures and other financing uses	(50,600)	37,340	40,617	3,277
Fund balance - beginning of year	<u>761,946</u>	<u>761,946</u>	<u>761,946</u>	<u>0</u>
Fund balance - end of year	<u><u>\$ 711,346</u></u>	<u><u>\$ 799,286</u></u>	<u><u>\$ 802,563</u></u>	<u><u>\$ 3,277</u></u>



VILLAGE OF FARWELL  
Required Supplemental Information  
Budgetary Comparison Schedule - Major Streets Fund  
For the Year Ended February 29, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue			\$ 68,098	
Charges for services			10,000	
Taxes and penalties			17,574	
Special assessments			2,880	
Interest income			<u>3,356</u>	
Total revenues	<u>\$ 85,550</u>	<u>\$ 94,085</u>	<u>101,908</u>	<u>\$ 7,823</u>
<u>Expenditures</u>				
Highways and streets	<u>148,145</u>	<u>103,370</u>	<u>149,234</u>	<u>(45,864)</u>
(Deficiency) of revenues over expenditures	<u>(62,595)</u>	<u>(9,285)</u>	<u>(47,326)</u>	<u>(38,041)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	5,000	5,000	10,000	5,000
Proceeds from bond issuance	0	0	49,000	49,000
Operating transfers (out)	<u>(6,100)</u>	<u>(6,100)</u>	<u>(6,100)</u>	<u>0</u>
Total other financing sources (uses)	<u>(1,100)</u>	<u>(1,100)</u>	<u>52,900</u>	<u>54,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(63,695)	(10,385)	5,574	15,959
Fund balance - beginning of year	<u>311,970</u>	<u>311,970</u>	<u>311,970</u>	<u>0</u>
Fund balance - end of year	<u>\$ 248,275</u>	<u>\$ 301,585</u>	<u>\$ 317,544</u>	<u>\$ 15,959</u>

VILLAGE OF FARWELL  
Required Supplemental Information  
Budgetary Comparison Schedule - Local Streets Fund  
For the Year Ended February 29, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue			\$ 23,084	
Taxes and penalties			17,574	
Interest income			<u>2,234</u>	
Total revenues	<u>\$ 38,600</u>	<u>\$ 43,062</u>	<u>42,892</u>	<u>\$ (170)</u>
<u>Expenditures</u>				
Highways and streets	<u>57,520</u>	<u>132,550</u>	<u>139,374</u>	<u>(6,824)</u>
(Deficiency) of revenues over expenditures	(18,920)	(89,488)	(96,482)	(6,994)
<u>Other Financing Sources</u>				
Operating transfers in	<u>36,100</u>	<u>36,100</u>	<u>36,100</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over expenditures	17,180	(53,388)	(60,382)	(6,994)
Fund balance - beginning of year	<u>75,803</u>	<u>75,803</u>	<u>75,803</u>	<u>0</u>
Fund balance - end of year	<u>\$ 92,983</u>	<u>\$ 22,415</u>	<u>\$ 15,421</u>	<u>\$ (6,994)</u>



# WEINLANDER FITZHUGH

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July 17, 2008

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Village Council  
Village of Farwell  
Clare County, Michigan

We have audited the financial statements of Village of Farwell as of and for the year ended February 29, 2008, and have issued our report thereon dated DATE. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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# WEINLANDER FITZHUGH

Village of Farwell  
July 17, 2008  
Page 2

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as 2008-1 through 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above, we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Village's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards .

The Village's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Village's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management and the Village Council, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**VILLAGE OF FARWELL**  
**Schedule of Findings and Responses**  
**For the Year Ended February 29, 2008**

**SECTION II - Financial Statement Findings**

**2008-1**

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Personnel responsible for financial reporting do not possess the skills necessary to monitor and report annual financial activity without auditor intervention.

Criteria

Internal controls should be in place to provide reasonable assurance to the Village that the management possesses the skills necessary to monitor and report annual financial activity without auditor intervention.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the Village's internal controls over financial reporting.

Recommendation

The Village should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village does not have the funding to implement such a program. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

**VILLAGE OF FARWELL**  
**Schedule of Findings and Responses**  
**For the Year Ended February 29, 2008**

**SECTION II - Financial Statement Findings (Continued)**

**2008-2**

Criteria or Specific Requirement

Establishment and maintenance of separation of duties over the cash collections and cash disbursements process.

Condition

Due to limited staff size, two individuals are essentially involved with the issuance of billings, collection of cash, check signing, bank reconciliation, transfers between bank accounts and responsibility for general ledger and utility activity postings.

Criteria

Internal controls should be in place to provide reasonable assurance to the Village Board that the management is correctly recording cash collections and cash disbursements.

Effect

The effect of this condition is that a misstatement would not be detected timely by management or the Village Board.

Recommendation

The Village should review and implement the necessary separation of duties and board oversight to lessen the effects of the lack of separation of duties.

Views of the Responsible Officials and Planned Corrective Action

Currently the Village does not have the funding to hire additional staff in order to have separation of duties. The Village Board intends to become more active in the oversight in the cash collections and cash disbursements as a compensating control for management.



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July 17, 2008

Members of the Village Council  
Village of Farwell  
Clare County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of Village of Farwell for the year ended February 29, 2008, and have issued our report thereon dated July 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and  
Government Auditing Standards

As stated in our engagement letter dated April 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Village of Farwell. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Village of Farwell's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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# WEINLANDER FITZHUGH

Members of the Village Council  
Village of Farwell  
Page 2  
July 17, 2008

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on April 7, 2008.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Farwell are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during they year ended February 29, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was depreciation.

Management's estimate of the estimated useful life is based on past experience and management's knowledge. We evaluate the key factors and assumptions used to develop the estimated useful life in determining that it is reasonable in relation to the financial statements taken as a whole.





# WEINLANDER FITZHUGH

Members of the Village Council  
Village of Farwell  
Page 3  
July 17, 2008

## *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements

## *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 17, 2008.

## *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



## WEINLANDER FITZHUGH

Members of the Village Council  
Village of Farwell  
Page 4  
July 17, 2008

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council, management and others within Village of Farwell and is not intended to be and should not be used by anyone other than these specified parties.

*Weinlander Fitzhugh*